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ABSTRACT

As mandated by the No Child Left Behind Act of 2001, the Government Accounting Office was charged with examining how school districts defined and spent Title I funds on administrative activities, and with reviewing Title I expenditures in at least six school districts. This document reports on how five studies defined Title I administrative expenditures and what they found about the percentage of funds spent on these activities, and what proportion of Title I funds was spent on administrative activities compared with instructional and other activities in six school districts. GAO conducted a literature review of studies and reports related to Title I and gathered data on administrative expenditures for the 2000-01 school year from six school districts across the country. The GAO found that district spending classified as administrative in the studies varied from 4 percent to 10 percent. In the six school districts, definitions of administrative expenditures varied, in part because of differing state and local requirements or practices. GAO, therefore, identified a set of categories as administrative expenditures and found that in the six school districts expenditures ranged from none to 13 percent of total Title I funds spend on administration. (WFA)

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United States General Accounting Office

GAO

Report to Congressional Committees

April 2003

# TITLE I

# Although Definitions of Administrative Expenditures Vary, Almost All School Districts Studied Spent Less Than 10 Percent on Administration

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# Highlights

Highlights of GAO-03-386, a report to the Committee on Health, Education, Labor and Pensions, United States Senate and the Committee on Education and Workforce, House of Representatives

TITLE I

# Although Definitions of Administrative Expenditures Vary, Almost All School Districts Studied Spent Less Than 10 Percent on Administration

## Why GAO Did This Study

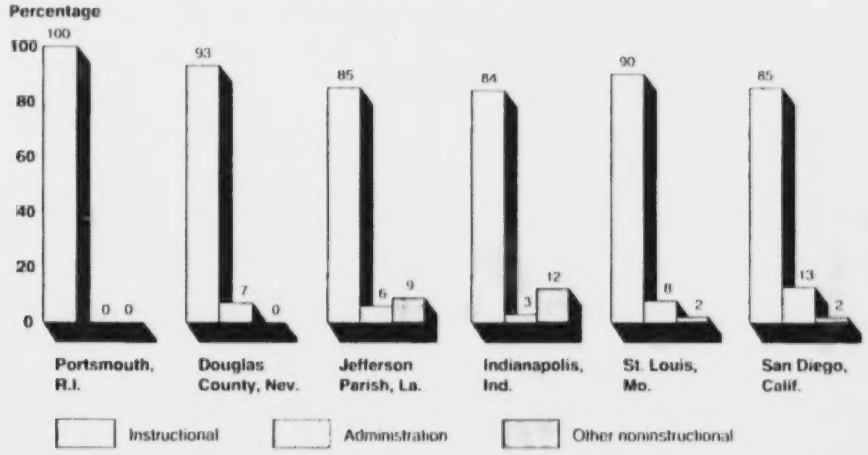
Because of concern about school district spending on administration, Congress directed GAO in two separate mandates in the No Child Left Behind Act of 2001 to (1) examine how school districts defined and spent Title I funds on administrative activities and (2) review Title I expenditures in at least six school districts. In response to these mandates, we are reporting on (1) how five studies define Title I administrative expenditures and what they found about the percentage of funds spent on these activities and (2) what proportion of Title I funds was spent on administrative activities compared with instructional and other activities in six school districts.

## What GAO Found

In defining local administrative expenditures, all studies reviewed always included the school district Title I coordinator's salary and benefits but, beyond this, their definitions varied. District spending classified as administrative in these studies varied, from 4 percent to 10 percent. In the six school districts we studied, definitions of administrative expenditures varied, in part because of differing state and local requirements or practices.

Because there is no common agreement on what constitutes administrative expenditures, GAO identified a set of categories as "administrative expenditures" for the purposes of this study and found that, in the six school districts, Title I expenditures for administrative activities ranged from 13 percent of total Title I expenditures to no Title I funds spent on administration. Most Title I funding—at least 84 percent in every district—was spent on activities related to instruction. In addition, most school districts spent a relatively small percentage of their Title I funds on other non-instructional expenditures, such as transportation. Title I expenditures represent allocation decisions made by the six school districts during a particular year and, because some administrative costs may have been covered by funds from sources other than Title I, do not necessarily reflect the total amount districts spent on Title I administration in that year.

**Percentage of Title I Funds Spent in Six School Districts on Instructional, Administration, and Other Noninstructional Expenditures, School Year 2000-01**




Source: GAO's data analyses of Title I spending.

Note: Percentages may not sum to 100 percent due to rounding.

www.gao.gov/cgi-bin/getrpt?GAO-03-386.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Marnie Shaul at (202) 512-7215 or shaulm@gao.gov.

# Contents


**Letter** 1

Results in Brief 2
Background 3
Select Studies Used Varying Definitions of Administrative Expenditures 5
The Proportion of Title I Funding Spent on Administrative Activities Varied, but Most School Districts Spent Less Than 10 Percent 10
Concluding Observations 14
Agency Comments 14

**Appendix I** **Scope and Methodology** 15

Objectives 15
Scope and Methodology 15

**Appendix II** **Comments from the U.S. Department of Education** 23

**Appendix III** **GAO Contacts and Staff Acknowledgments** 24

Contacts 24
Acknowledgments 24

**Tables**

Table 1: Expenditure Categories Considered to be Title I Administrative Expenditures in Five Selected Studies 6
Table 2: Summary of Studies Reviewed 7
Table 3: Proportion of Title I Spending by Type of Expenditure, School Year 2000-01, by Size of Title I Expenditures 12
Table 4: Number of Full-Time Equivalent Staff Funded by Title I and the Total Staff in the School Districts, School Year 2000-01 13
Table 5: Characteristics of School Districts Selected, School Year 2000-01 17
Table 6: Six School Districts' Views of Whether Three Categories of Expenditures Are Title I Administrative Expenditures 18
Table 7: Description of Instructional, Administrative, and Other Noninstructional Expenditures Used in This Study 19

Table 8: GAO Categories of Administrative Expenditures Compared with In$ite™ Administration-Related Expenditure Categories 20

## Figure

Figure 1: Percents of Total Title I and Total School District Expenditures Spent on Administration, School Year 2000-01 11

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United States General Accounting Office
Washington, DC 20548

April 7, 2003

The Honorable Judd Gregg, Chairman
The Honorable Edward M. Kennedy
Ranking Minority Member
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable John A. Boehner, Chairman
The Honorable George Miller
Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

In 2001, the Congress passed the No Child Left Behind Act (NCLB) in part to improve the academic achievement of disadvantaged children. The act also provided additional funding to school districts with students from low-income families. For fiscal year 2002, $10 billion was available through Title I of the act,[1] the largest source of federal funding for elementary and secondary education. To ensure that most of these funds were spent on instructional activities that improve student learning, in the conference report accompanying NCLB, the Congress indicated that only the necessary and appropriate amount of funds be used for administrative activities. However, the law does not specifically define administrative activities or set specific limits on administrative spending by school districts.

We were directed in two separate mandates by the Congress to (1) examine how school districts defined and spent Title I funds on administrative activities and (2) review Title I expenditures in at least six school districts. In response to these mandates, we are reporting on (1) how five studies define Title I administrative expenditures and what they found about the percentage of funds spent on these activities and (2) what proportion of Title I funds was spent on administrative activities compared with instructional and other activities in six school districts.

[1]Throughout this report, we refer to Title I, Part A of the No Child Left Behind Act as "Title I." Part A of Title I in the act is directed at improving basic programs operated by local education agencies, which we refer to as "school districts" in this report.

In response to the first mandate, we examined five studies related to Title I that we found in our literature review which defined school district administrative expenditures and the percentage of funds school districts spent on administration. In response to the second mandate, we conducted site visits in six school districts and gathered information about Title I expenditures to assess what proportion of Title I funding was spent on administrative activities compared with instructional and other activities. We selected six school districts in the following locations to ensure variation in enrollment size, ethnic composition, economic condition, and geographic location: Portsmouth, Rhode Island; Douglas County, Nevada; Jefferson Parish, Louisiana; Indianapolis, Indiana; St. Louis, Missouri; and San Diego, California. Because there is no agreement on a definition of administrative expenditures, in order to compare the six districts, we identified expenditure categories as "administrative" from our analysis of the five studies and consultations with school finance experts. The administrative expense categories include (1) the salaries and fringe benefits of Title I coordinators, managers, and administrative support staff; (2) support expenditures, such as equipment, for staff in category one, and (3) the salaries, fringe benefits and related expenditures for district- and school-level administrative leadership, such as principals. We then broke the districts' total Title I spending into three subcategories: instruction and instructional support, administration, and other noninstructional activities, such as transportation. Because of the limited number of districts and other factors outlined in appendix I, our findings cannot be generalized to school districts nationwide. (Appendix I explains our methodology in more detail.) We conducted our work between April 2002 and January 2003 in accordance with generally accepted government auditing standards.

## Results in Brief

All studies reviewed included the school district Title I coordinator's salary and benefits in their definition of local administrative expenditures, but, beyond this, their definitions varied. For example, professional development activities were included in one definition but not in others. District spending classified as administration in these studies varied, from 4 percent to 10 percent.

Using a set of administrative expenditure categories developed for this study we found that, in the six school districts we studied, Title I expenditures for administrative activities ranged from 13 percent of total Title I expenditures to no Title I funds spent on administration. However, only in one district did Title I administrative expenditures exceed 10 percent. Most Title I funding—at least 84 percent in every district—was

spent on activities related to instruction. However, the amount of Title I funds spent on administration reflects school district decisions about how expenses for administrative activities are allocated among various programs. For example, Portsmouth, Rhode Island, spent no Title I funds on administration but conducts Title I administrative activities. The district pays for them with local funds, according to district officials. Four of the school districts spent a relatively small percentage of their Title I funds on other noninstructional expenditures, including student transportation, building maintenance, and capital projects. The Title I expenditures on administration represent allocation decisions made by the six school districts for a particular year and do not represent school district spending in other years. Such decisions may change from one school year to the next.

## Background

States and localities provide most of the funding for public schools. In the 1998-99 school year, funds from state and local governments accounted for 93 percent of elementary and secondary school funding. Overall, states and localities contribute roughly an equal amount to educational programs, although individual state shares vary considerably. For example, in 1997, the state share in New Hampshire was 9 percent while in New Mexico it was 72 percent. The federal government also provides funding for elementary and secondary education, largely through the Elementary and Secondary Education Act (ESEA) of 1965.

The NCLB Act of 2001 reauthorized ESEA. Title I of NCLB is intended to help elementary and secondary schools establish and maintain programs that will improve the educational opportunities of low-income and disadvantaged children. Title I funds are intended to provide instruction and instructional support for these disadvantaged children so that they can master challenging curricula and meet state standards in core academic subjects. Although NCLB incorporated new or expanded requirements for the Title I program that related to such issues as strengthening accountability for results, it does not stipulate exactly how these funds are to be spent. Instead, the Title I program is an example of flexible funding for state educational agencies and school districts.

The Congress intended for most Title I funds to be spent on instruction and instructional activities, while limiting other costs, such as those on administrative activities. However, Title I does not contain a general definition of administrative expenses that school districts must use. Before the enactment of NCLB, ESEA required the U.S. Department of Education (Education) to conduct a study and report on the use of the funds for

administration under the act and, based on the results of that study develop a definition of what types of activities constitute administration. Within 1 year of the study, which was required to have been completed by July 1, 1997, Education was required to promulgate final regulations or guidance regarding the use of funds for administration under ESEA, including limitations on the amount of funds that may be used for administration where no limit had been specified in law.[2] Education did not develop a definition of administrative activities or issue regulations or guidance. However, these requirements were repealed by NCLB.

While Education has not developed a specific definition of administrative activities for Title I, the agency's general administrative regulations and guidance address the issue of how grantees should identify administrative costs. Education's general administrative regulations contain a statement that "administrative requirements mean those matters common to grants in general, such as financial management, kinds and frequency of reports, and retention of records. These are distinguished from *programmatic* requirements, which concern matters that can be treated only on a program-by-program or grant-by-grant basis, such as kinds of activities that can be supported by grants under a particular program."[3] (Emphasis in original.)

In response to the requirement in the ESEA that Education report on the results of its study, in 1998 the agency issued *The Use of Federal Education Funds for Administrative Costs*, which included a section entitled "Definitions of Administrative Spending." The report includes a discussion of various definitions of administrative costs and activities described in law and guidance, definitions used by researchers, and "issues that should be considered in developing a definition of administrative costs for federal education programs." The report refers to prior guidance issued by Education on what constitutes administrative costs where the term is not otherwise defined in statute or regulation.[4] This guidance states that "[t]he costs of administration are those portions of reasonable, necessary and allowable costs associated with the overall project management and administration and which are not directly related

[2]P.L. 103-382, title I,§101 (Oct. 20, 1994), amending ESEA. These requirements were repealed by NCLB.

[3]34 C.F.R. §80.3.

[4]U.S. Department of Education, *Indirect Cost Determination: Guidance for State and Local Government Agencies*, (Washington, D.C., 1997) pp. 72.

to the provision of services to participants or otherwise allocable to the program cost objectives/categories. These costs can be both personnel and nonpersonnel costs and both *direct and indirect.*[5] (Emphasis in original.)[6] The guidance provides a list of examples of direct administration such as the salaries, benefits, and other expenses of staff who perform overall program management, program coordination, and office management functions.

## Select Studies Used Varying Definitions of Administrative Expenditures

All five studies we reviewed included the school district Title I coordinator's salary and benefits in their definition of local administrative expenditures but, beyond this, the activities categorized as administration varied. District spending on administration in the five studies reviewed varied from 4 percent to 10 percent. Several factors may contribute to this variation, such as the use of different definitions of administrative expenditures or reliance on different data types, such as budget numbers or actual expenditures.

### In Five Studies, Definitions of Administrative Expenditures Varied

Although they had common elements, the definitions of administrative expenditures used in the studies we reviewed varied. In all five of the studies, the salaries and benefits of school district Title I coordinators were considered to be administrative expenditures.[7] However, four of the studies used a definition that encompassed more than this. For example, four of the studies also included supplies and equipment to support Title I administration in their definition. Table 1 highlights the similarities and differences among the various definitions of administrative expenditures used in the studies.

[5]Direct expenditures are those that can be specifically identified with a program, such as the salaries and benefits of program administrators. Indirect expenditures are for resources that cannot be specifically identified with a program, such as the portion of expenditures for data processing or accounting that support the program.

[6]While this document is termed "Guidance," such guidance issued by the agency authorized to administer the program is generally binding in determining the allowability of costs. See *California v. U.S.*, 547 F.2d 1388 (9th Cir. 1977). The overallocation of indirect costs, for example, would be considered unauthorized and, therefore, unallowable. *Principles of Federal Appropriations Law*, 2nd ed, vol. II, pps. 10-75.

[7]One study we examined did not include a definition of administration in their report. However, researchers used definitions developed by the National Center for Education Statistics when categorizing district expenditures. See table 2 for the center's definition. This study is: U.S. Department of Education, Planning and Evaluation Service, *Study of Education Resources and Federal Funding*, (Washington, D.C.: 2000).

**Table 1: Expenditure Categories Considered to be Title I Administrative Expenditures in Five Selected Studies**

| Expenditure categories | Study 1[a] | Study 2[b] | Study 3[c] | Study 4[d] | Study 5[e] |
|---|---|---|---|---|---|
| Salaries and benefits of Title I coordinators | ✓ | ✓ | ✓ | ✓ | ✓ |
| Supplies and equipment to support Title I administration | ✓ | ✓ | ✓ | | ✓ |
| Salaries and benefits of Title I administrative support staff | ✓ | ✓ | ✓ | | ✓ |
| Professional development for Title I coordinators and administrative support staff | | ✓ | | | |
| District administration (salaries and benefits for superintendents, school boards, senior administrators, and other central office staff) | ✓ | | ✓ | | |
| Researchers and program evaluators | | | ✓ | | |
| School administration (principals and assistant principals) | ✓ | | ✓ | | |
| Business services (payroll, personnel, purchasing, accounting, and data processing) | | | ✓ | | |
| Furniture, computers and supplies for school and district administrators | ✓ | | ✓ | | |
| Legal services | ✓ | | ✓ | | |

Source: GAO analysis.

[a]U.S. Department of Education, Planning and Evaluation Service, *Study of Education Resources and Federal Funding.* (Washington, D.C.: 2000).

[b]U.S. Department of Education Inspector General, *Following Title I, Part A and Secondary School Vocational Education Program Dollars to the Schools in 36 LEAs Visited*, (Atlanta, Ga.: 1998).

[c]U.S. Department of Education, *Planning and Evaluation Service, Elementary and Secondary Education Division, The Use of Federal Education Funds for Administrative Costs*, (Washington, D.C.: 1998).

[d]Abt Associates,Inc. *The Chapter 1 Implementation Study, Interim Report*, Cambridge, Mass., 1992.

[e]U.S. General Accounting Office, *Compensatory Education-Most Chapter 1 Funds in Eight Districts Used for Classroom Services*, GAO/HRD-92-136FS (Washington, D.C.: Sept. 30, 1992).

## District Spending on Title I Administration Ranged from 4 Percent to 10 Percent

Using different definitions of administrative expenditures, estimates of Title I district spending on administration varied among the five studies that we reviewed (see table 2). The studies generally found that school districts spent between 4 percent and 10 percent of Title I funds on administrative activities. These estimates can also differ from school

district to school district within a single study. For example, Education's 1998 study of expenditure data from 41 school districts located in 3 states found that a school district in Milwaukee spent 4 percent of Title I funds on administrative activities, school districts in South Carolina spent an average of 6 percent on administrative activities, and school districts in Rhode Island spent an average of 10 percent on such activities.

**Table 2: Summary of Studies Reviewed**

| Study | School year of data reviewed | Number of school districts sampled | Definition of administration | Estimate of Title I spending on administration (in percent) |
|---|---|---|---|---|
| U.S. Department of Education, Planning and Evaluation Service, *Study of Education Resources and Federal Funding* | 1997-98 | 180 | Although the study does not develop its own definition of administration, researchers used definitions developed for categorized district data in National Center for Education Statistics guidance contained in *Financial Accounting for Local and State School Systems.*<br><br>The National Center for Education Statistics definition includes two types of administration categories: general administration and school administration. Both categories include salaries, fringe benefits, furniture, equipment, and supplies associated with administrative activities.<br><br>General administration:<br>• Superintendent<br>• School board<br>• Labor relations and negotiations<br>• Central office expenditures for administering special programs (e.g., Title I) and other central office expenditures<br>• Legal services<br>• Election services<br>• Tax assessment and collection<br>• Community relations<br>• Grant procurement<br><br>School administration:<br>Principal's office (including vice principals and administrative support) and full-time department chairpersons. | 8 |

| Study | School year of data reviewed | Number of school districts sampled | Definition of administration | Estimate of Title I spending on administration (in percent) |
|---|---|---|---|---|
| U.S. Department of Education Inspector General, *Following Title I, Part A and Secondary School Vocational Education Program Dollars to the Schools in 36 LEAs Visited* | 1996-97 | 36 | Primarily included salaries, related benefits, and professional development for program coordinators and their administrative staff, as well as any materials and equipment used to support administrative functions. | 6 |
| U.S. Department of Education, Planning and Evaluation Service, Elementary and Secondary Education Division, *The Use of Federal Education Funds for Administrative Costs* | 1995-96 | 41 | Based on Coopers & Lybrand Financial Analysis Model [currently called the In$ite model]. Divided administration into three categories: district and school administration and business services. Each of these three categories includes salaries and fringe benefits for administrative staff as well as non-personnel costs such as furniture, computers, and supplies. District administration includes superintendents, school boards, senior administrators, legal services, research and program evaluators, and other central office staff. School administration includes principals and assistant principals. Business services include payroll, purchasing, personnel, accounting, and data processing. For federal education programs, administrative costs will typically include salaries and expenses for district and school level federal program coordinators. | 4-10 |
| Abt Associates, Inc. *The Chapter 1 Implementation Study, Interim Report* | 1990-91 | 1,600 | Salaries and benefits for Title I administrators, including district staff. | 4 |
| U.S. General Accounting Office, *Compensatory Education-Most Chapter 1 Funds in Eight Districts Used for Classroom Services, GAO/HRD-92-136FS* | 1990-91 | 8 | Primarily salaries and benefits for Title I coordinators and administrative staff, as well as supplies and equipment used to support the program. | 10 |

Source: GAO analysis.

[a]The term "Chapter 1" was used until the 1994 reauthorization of ESEA to refer to what is now Title I. For clarity, this report will refer to the program as Title I even when discussing data collected prior to the 1994 reauthorization.

Several factors, such as different definitions of administration or data types, may have contributed to the variety of findings among the studies we reviewed. The study that found that school districts were using the smallest percent of Title I funds for administration used the most limited definition of administration, only including the salaries and benefits of Title I administrators. Also, the scope of the studies differed. Two studies produced national estimates by reviewing a large number of school

districts nationwide, while the other three selected fewer school districts, and the findings were not generalizable to school districts nationwide. In addition, the studies' data types for estimating administration spending were not the same. For example, two studies based their findings on budget estimates provided by school districts while the other three studies used expenditure reports from school districts. Finally, the studies reviewed expenditure data from different school years.

## In Six School Districts We Studied, Definitions of Administrative Expenditures Varied

The six school districts that we studied used different definitions of administrative expenditures, in part because of differing state and local requirements or practices. As a result, expenditures may be accounted for in different ways across the school districts we studied. Local officials in all six school districts agreed that salaries and benefits of Title I coordinators, managers, and administrative support staff who are engaged in basic program operation and management, such as office administration and program coordination, were administrative. However, beyond this, what district officials counted as administrative expenditures varied. For example, St. Louis school district officials considered staff time dedicated to the professional development of teachers as administration, while school district officials in Jefferson Parish, La., did not.

In some cases, states may develop definitions of Title I administrative expenditures for school districts to limit the amount charged to the program for administration. Varying state accounting requirements and use of different state accounting handbooks may influence the characteristics of school district expenditure data. Two of the school districts we visited described state requirements that affect how school districts define and track expenditures in their state. For example, as part of the Title I application process, the state of Indiana encouraged school districts to reserve a maximum of 4 percent for administration and a minimum of 62 percent for instruction.[8] Taking a slightly different approach, the state of California education code directs school districts to spend at least 85 percent of their Title I allocation at schools for direct services to students, thereby limiting the amount that can be spent on other activities, including administration.[9]

[8]Title I Application Review Questions, Indiana Department of Education.

[9]California Education Code sec. 63001 (2000).

## The Proportion of Title I Funding Spent on Administrative Activities Varied, but Most School Districts Spent Less Than 10 Percent

Because there is no common agreement on what constitutes administrative expenditures, we identified a set of expenditure categories as "administrative" for the purposes of this study and found that, in the six school districts, Title I expenditures for administrative activities ranged from 0 percent to 13 percent of total Title I expenditures for the 2000-01 school year.[10] However, only in one district did Title I administrative expenditures exceed 10 percent. Most Title I expenditures—at least 84 percent in every district—were spent on instructional activities. Instructional expenditures include spending on instruction and instructional support. Spending on instruction included the salaries of instructional teachers, paraprofessionals and substitutes. Spending on instructional support included classroom materials and pupil and teacher support.

Administration for the purposes of this study include the following expenditure categories that we developed:

- The salaries and fringe benefits of Title I coordinators, managers, and administrative support staff who are engaged in basic program operation and management, such as office administration and program coordination.
- The related expenditures of coordinators, managers, and administrative support staff of Title I, such as equipment, supplies, furniture and business services required to support the administrative function, and auditing and legal services and data processing.
- Salaries, fringe benefits, and related indirect expenditures for district or school-level administrative leadership (including school board, superintendent, superintendent's cabinet, school principal, and vice principal) involved in directing and supervising staff who are providing instruction or instruction-related services for Title I programs.

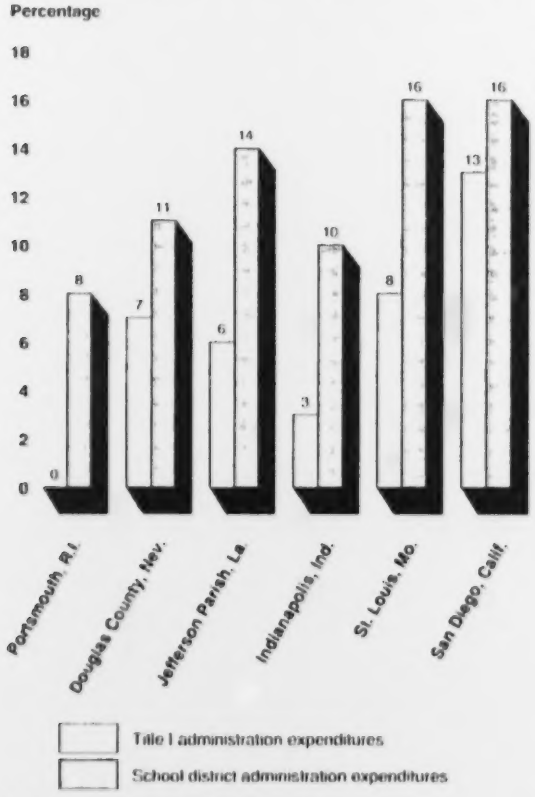
## The Proportion of Title I Funding Spent on Administration Varied among Six School Districts

In the six school districts, the proportion of Title I funding spent on administrative activities varied, though most Title I funds were spent on instruction and instructional support. Of the six school districts, San Diego spent the largest percentage of Title I funds on administration (13 percent), while Portsmouth, Rhode Island, spent none of its Title I funds

[10]Expenditure data from five of the six districts are from the 2000-01 school year. Expenditure data from Indianapolis, however, are from calendar year 2000. Hereafter, we will refer to the year of our data collection as school year 2000-01.

on administration. Title I expenditures on administration represent allocation decisions made by the six school districts for a particular year. The amount of Title I funds spent on administration reflects school district decisions about what funds to use for administrative activities and not necessarily how much total funding was dedicated to the administration of Title I. For example, the Portsmouth school district does conduct Title I administrative activities, but pays for them with local funds. In all six school districts, the share of total Title I spending on administration was less than the share of total district spending on administration (see fig. 1).

**Figure 1: Percents of Total Title I and Total School District Expenditures Spent on Administration, School Year 2000-01**




Source: GAO's data analysis of Title I spending.

Note: Expenditure data from Indianapolis are from calendar year 2000.

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Though they spent different percentages of their Title I funds on administration, the types of administrative activities the six school districts chose to pay for with Title I funds were similar. In five of the six school districts, Title I coordinators were funded by Title I during the 2000-01 school year. In all but the Portsmouth school district, Title I funds supported other district staff with Title I responsibilities, such as staff who provided technical assistance to the schools in specific areas such as finance, professional development, and technology. None of the school districts we visited used Title I funds to pay for activities by principals and vice principals.

## Most Title I Funds Were Spent on Activities Related to Instruction

In all six school districts, most Title I funding was spent on activities related to instruction. Each school district spent at least 84 percent of its Title I funds on instruction and instructional support (see table 3). (See appendix I for details on what constitutes each type of expenditure.)

**Table 3: Proportion of Title I Spending by Type of Expenditure, School Year 2000-01, by Size of Title I Expenditures**

| | | Instructional | | | Administration | Other noninstructional | | |
|---|---|---|---|---|---|---|---|---|
| School district | Total Title I expenditures | Instruction | Instructional support | Total | Total | Operations | Other | Total |
| Portsmouth, R.I. | $110,912 | 100% | 0% | **100%** | **0%** | 0% | 0% | **0%** |
| Douglas County, Nev. | $377,233 | 85% | 8% | **93%** | **7%** | 0% | 0% | **0%** |
| Jefferson Parish, La. | $9,096,895 | 71% | 14% | **85%** | **6%** | 4% | 5% | **9%** |
| Indianapolis, Ind. | $15,060,344 | 57% | 27% | **84%** | **3%** | 0% | 12% | **12%** |
| St. Louis, Mo. | $18,658,131 | 81% | 8% | **90%** | **8%** | 0% | 2% | **2%** |
| San Diego, Calif. | $32,547,153 | 57% | 28% | **85%** | **13%** | 0% | 2% | **2%** |

Source: GAO's data analysis of Title I spending.

Notes: (1) Percentages do not represent total district spending on instructional, administrative, and other noninstructional activities. (2) Percentages reflect local Title I allocation decisions and not necessarily total expenditures in those spending categories, as state and local funds my be used in addition to or in place of Title I funds in any category. (3) The proportions of Title I funding spent on various activities reflect the decisions and circumstances of school districts for a particular year and do not represent school district spending in other years. (4) The proportion of Title I expenditures spent on instructional, administrative, and other noninstructional activities take into account direct and indirect expenditures. (For more information about how indirect expenditures were included in the analysis, see appendix I.) (5) Total Instructional, Administration, and Other Noninstructional percentages of total Title I expenditures may not sum to 100 percent due to rounding. (6) Expenditure data from Indianapolis are from calendar year 2000.

In addition, four of the school districts spent a relatively small percentage of their Title I funds on other noninstructional expenditures, such as out-of-district obligations, student transportation, building maintenance, and capital projects. Indianapolis spent the largest proportion of Title I funds

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on other noninstructional expenditures, a majority of which were Title I payments to parochial, private, and charter schools.[11]

Title I funds were used to support staff in all of the school districts we studied. Table 4 provides the number of full-time equivalent teachers and teacher aides and other district staff funded by Title I as compared with the total full-time equivalent staff working in the school district. Title I staff represented between less than 1 percent and about 7 percent of total staff in the school districts. In districts with the smallest Title I grants, other district staff were funded only partially or not at all with the Title I grant. However, in the districts with the largest grants, other district staff, such Title I coordinators, were funded entirely by Title I.

**Table 4: Number of Full-Time Equivalent Staff Funded by Title I and the Total Staff in the School Districts, School Year 2000-01**

| | Funded by Title I | | | |
|---|---|---|---|---|
| School district | Teachers & teacher aides | Other staff | Total staff | Total district staff |
| Portsmouth, R.I. | 2.33 | 0.00 | 2.33 | 345.50 |
| Douglas County, Nev. | 4.80 | 0.30 | 5.10 | 599.00 |
| Jefferson Parish, La. | 220.60 | 43.80 | 264.40 | 7,913* |
| Indianapolis, Ind. | 205.68 | 56.49 | 262.17 | 5,800* |
| St. Louis, Mo. | 329.50 | 96.50 | 426.00 | 6,324.00 |
| San Diego, Calif. | 175.17 | 126.09 | 301.26 | 15,059.49 |

Source: GAO's analysis of school district staffing.

*Total district staff for Jefferson Parish and Indianapolis represents the number of employees rather than full-time equivalent staff.

The proportions of Title I funding spent on various activities reflect the decisions and circumstances of school districts for a particular year. For example, in school year 2000-01 San Diego invested in teacher training in literacy at the start of a districtwide reform effort, which accounts for much of the high proportion (28 percent) spent on instructional support in that year. Similarly, Indianapolis spent 27 percent on instructional support in calendar year 2000, investing in pupil, teacher, and program support.

Some school district officials noted that spending decisions might change in the future due to new federal requirements. They pointed out that a

[11]These payments may be used for instructional activities in parochial, private, or charter schools. However, because these payments are not for instruction at public schools they are, therefore, categorized as other noninstructional expenditures.

larger proportion of Title I funds may be needed for administrative and other noninstructional activities due to new requirements in the NCLB Act. For example, officials from two school districts said that the implementation of the school choice provisions in NCLB may increase transportation costs. A new requirement in NCLB stipulates that school districts must offer students in Title I schools that do not perform adequately for 2 consecutive years the option of transferring to another public school. School districts must provide transportation for, or pay the transportation costs of, the students who choose this option.

## Concluding Observations

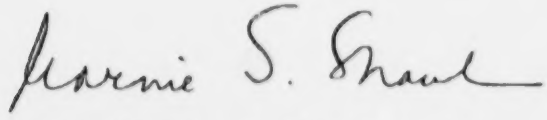
This report provides insights from studies about administrative expenditures and a snapshot of Title I expenditures in six school districts for 1 year. Although definitions of administrative expenditures varied, the studies and our work in six districts suggest that despite the flexibility school districts have in the use of these federal funds, they limited Title I spending for administration and spent most Title I funds on instruction.

## Agency Comments

We received comments from Education on a draft of this report, which are reprinted in appendix II. Education found the report to be informative and noted that the report should be useful to the Congress, Education itself, and state and local grantees.

We are sending copies of this report to the Secretary of Education, appropriate congressional committees, and other interested parties. Copies will also be made available at no charge on GAO's Web site at http://www.gao.gov. If you or your staff have any questions or wish to discuss this material further, please call me at (202) 512-7215.

Marnie S. Shaul



Director, Education, Workforce,
and Income Security Issues

# Appendix I: Scope and Methodology

## Objectives

The objectives of our review were to report on (1) how five studies define Title I administrative expenditures and what they found about the percentage of funds spent on these activities and (2) what proportion of Title I funds was spent on administrative activities compared with instructional and other activities in six school districts.

## Scope and Methodology

To assess how selected studies define Title I administrative expenditures, we conducted a literature review of studies and reports related to Title I and what they found about the percentage of funds spent on these activities. Each of these studies included an estimate of the percentage of Title I funds that school districts spent on administrative activities. Because there is no common agreement on what constitutes administrative expenditures, for the purposes of this study, we identified a set of expenditure categories as "administrative" based on federal guidance, previous studies, and interviews with subject matter experts. To assess what proportion of Title I funding specific school districts spent on administrative activities compared with instructional and other activities, we conducted site visits to five school districts and telephone interviews with officials from an additional school district. We gathered information about Title I administrative expenditures for the 2000-01 school year[1] and analyses of expenditure reports from six school districts. Officials in six school districts we surveyed provided us with feedback on which of our three expenditure categories they considered to be administrative expenditures. We contracted with a consulting firm to analyze school district Title I expenditures using the three expenditure categories. Due to the limited number of districts, however, our findings cannot be generalized to school districts nationwide. We conducted our review between April 2002 and January 2003 in accordance with generally accepted government auditing standards.

## Literature Review

To assess how selected studies define Title I administrative expenditures, we conducted a literature review of studies and reports related to Title I. Literature was gathered by conducting bibliographic searches of major educational databases[2] and through consultation with experts in school

[1]Expenditure data from five of the six districts are from the 2000-01 school year. Expenditure data from Indianapolis, however, are from calendar year 2000. Hereafter, we will refer to the year of our data collection as school year 2000-01.

[2]Databases searched include Pro Quest, Education Resource Information Center, and the Database of Department of Education Publications in ERIC.

finance. We examined five studies that met the following criteria: (1) included data on school district Title I spending on administration; (2) reviewed school districts located in more than one state; and (3) was published after 1990. Each of the studies reviewed included an estimate of the percentage of Title I funds that school districts spent on administrative activities. The studies we examined include:

- U.S. Department of Education, Planning and Evaluation Service, *Study of Education Resources and Federal Funding* (Washington, D.C.: 2000).
- U.S. Department of Education Office of Inspector General, *Following Title I, Part A and Secondary School Vocational Education Program Dollars to the Schools in 36 LEAs Visited* (Atlanta, Ga.: 1998).
- U.S. Department of Education, Planning and Evaluation Service, *Elementary and Secondary Education Division, The Use of Federal Education Funds for Administrative Costs* (Washington, D.C.: 1998).
- Abt Associates Inc., *The Chapter 1 Implementation Study, Interim Report* (Cambridge, Mass.: 1992).
- U.S. General Accounting Office, *Compensatory Education-Most Chapter 1 Funds in Eight Districts Used for Classroom Services*, GAO/HRD-92-136FS (Washington, D.C.: Sept. 30, 1992).

## Site Visits

To assess what proportion of Title I funding spent by specific school districts on administrative activities compared with instructional and other activities, we gathered information about Title I administrative expenditures for the 2000-01 school year through site visits to five school districts and analysis of their expenditure reports. We gathered information about a sixth school district through telephone interviews with district officials and analysis of its expenditure reports.

We selected the school districts based on the characteristics described in our congressional mandates, including variation in enrollment size, ethnic composition, economic condition, and geographic location. We also considered the ability of the consultant to analyze the expenditures of school districts selected. All school districts, with the exception of San Diego, California, used a financial reporting model called In$ite™, which is used by Fox River Learning, the consulting firm we worked with to categorize expenditures. Although the school district did not use the

model, we selected San Diego because it added to the geographic dispersion of the sample and represented a large metropolitan area. See table 5 for characteristics of the school districts selected. In addition to San Diego, we selected school districts in the following locations: Portsmouth, Rhode Island; Douglas County, Nevada; Jefferson Parish, Louisiana; Indianapolis, Indiana; and St. Louis, Missouri. Because of the limited number of districts selected, our findings cannot be generalized to school districts nationwide.

**Table 5: Characteristics of School Districts Selected, School Year 2000-01**

| School district | Student enrollment | Locale & region | % Minority enrollment | % Eligible for free/reduced price lunch |
|---|---|---|---|---|
| Portsmouth, R.I. | 2,869 | Small town, northeast | 4% | 7% |
| Douglas County, Nev. | 7,022 | Rural, west | 14% | 21% |
| Jefferson Parish, La. | 51,413 | Urban fringe of a large city, south | 61% | 68% |
| Indianapolis, Ind. | 41,108 | Large central city, midwest | 68% | 76% |
| St. Louis, Mo. | 41,400 | Large central city, midwest | 83% | 83% |
| San Diego, Calif. | 141,804 | Large central city, west | 73% | 62% |

Source: Locale and region from National Center for Education Statistics Common Core of Data. Student enrollment, percent minority enrollment, percent eligible for free and reduced price lunch reported by the school districts for school year 2000-01.

## Our Categorization of Administrative Activities

To compare the six school districts, we identified a set of expenditure categories as "administrative," based on federal guidance, previous studies, and interviews with experts in school finance.[3] We identified those administrative activities mentioned most frequently by experts or identified in the documents we reviewed. See table 6, which illustrates which of these three categories each district included in its definition of Title I administrative expenditures.

During our interviews, school district officials stated whether they considered our three categories of expenditures to be administrative

[3]We consulted with the following school finance experts: Dr. Lawrence Picus, University of Southern California; Dr. Jay Chambers, American Institutes for Research; Stephanie Stullich, Planning and Evaluation Service, U.S. Department of Education; Dr. Donald Tetreault, University of South Carolina; and Dr. William Fowler, National Center for Education Statistics, U.S. Department of Education.

expenditures under the program. School district officials in all six school districts agreed that salaries and benefits of Title I coordinators and administrative support staff were administrative expenditures under the Title I program. However, agreement on the other two categories of expenditures was not unanimous.

**Table 6: Six School Districts' Views of Whether Three Categories of Expenditures Are Title I Administrative Expenditures**

| | Three categories of expenditures | | |
|---|---|---|---|
| | **Category 1** The salaries and fringe benefits of Title I coordinators[a] managers and administrative support staff who are engaged in basic program operation and management, such as office administration and program coordination. | **Category 2** The related costs of coordinators, managers, and administrative support staff of Title I, such as equipment, supplies, furniture and business services required to support the administrative function, and auditing and legal services and data processing. | **Category 3** Salaries, fringe benefits, and related indirect expenditures for district or school level administrative leadership (including school board, superintendent, school principal, and vice principal) involved in directing and supervising staff who are providing instruction or instruction-related services for Title I programs. |
| **School district** | | | |
| Portsmouth, R.I. | Yes | Yes,[b] with exceptions | Yes,[b,e] with exceptions |
| Douglas County, Nev. | Yes | No | No |
| Jefferson Parish, La. | Yes | Yes | Yes,[c] with exceptions |
| Indianapolis, Ind. | Yes | Yes | Yes,[d,e] with exceptions |
| St. Louis, Mo. | Yes | Yes | Yes[e] |
| San Diego, Calif. | Yes | Yes | No |

Source: GAO analysis.

[a]For these categories, Title I coordinators are responsible for managing the Title I program for the district and are equivalent to managers or directors.

[b]Portsmouth agreed with Category 2, with the exception of coordinators and managers, and Category 3, with the exception of school board.

[c]Jefferson Parish agreed with Category 3, with the exception of school principals and vice principals.

[d]Indianapolis agreed with Category 3, with the exception of school board and superintendent.

[e]Although Portsmouth, Indianapolis, and St. Louis considered expenditures associated with principals and vice principals to be allowable Title I expenditures, none charged any of their salaries to Title I in 2000-01.

Table 7 summarizes how we classified instructional, administrative, and other noninstructional expenditures for this study.

**Table 7: Description of Instructional, Administrative, and Other Noninstructional Expenditures Used in This Study**

| Expenditure | Activities |
|---|---|
| **Instructional** | |
| Instruction | • Face-to-face teaching (salaries of instructional teachers and paraprofessionals, substitutes) |
| Instructional support | • Classroom materials (pupil-use technology and software; instructional materials, trips, and supplies).<br>• Pupil support (guidance and counseling; library and media; extracurricular; and student health and services).<br>• Teacher support (curriculum development; in-service, staff development and support; and sabbaticals). |
| **Administrative** | • The salaries and fringe benefits of Title I coordinators, managers, and administrative support staff who are engaged in basic program operation and management, such as office administration and program coordination.<br>• The related expenditures of coordinators, managers, and administrative support staff of Title I, such as equipment, supplies, furniture, and business services (auditing, legal services, and data processing) required to support the administrative function.<br>• Salaries, fringe benefits, and related indirect expenditures for district or school level administrative leadership (including school board, superintendent, superintendent's cabinet, school principal, and vice principal) involved in directing and supervising staff who are providing instruction or instruction-related services for Title I programs. |
| **Other noninstructional (operations + other commitments)** | • Noninstructional pupil services (transportation, food service, and safety).<br>• Facilities (building upkeep, utilities, and maintenance).<br>• Budgeted contingencies.<br>• Capital (debt service and capital projects).<br>• Out-of-district obligations (parochial, private, charter and public school pass through; retiree benefits; enterprise/community service operations).<br>• Legal obligations (claims and settlements). |

Source: GAO analysis.

## Education Consulting Firm Contract

To expedite data collection and analysis, we contracted with a consulting firm selected via a competitive bidding process to analyze school district Title I expenditures. The expenditure reports were produced by Fox River Learning, an education consulting firm using their analytical tool, the In$ite™ model, formerly known as the Coopers and Lybrand Finance Analysis Model. The model is used by 400 school districts across the country. Five of the six school districts we selected for this study used the

model in the past for a variety of purposes, such as calculating the cost per student by school and identifying the proportion of funds spent on instruction and schools with the greatest needs. One school district, San Diego, did not use the model, but the consultant worked with the district to categorize its Title I expenditures using the model. Table 8 shows how our set of administrative expenditure categories relates to the model.

**Table 8: GAO Categories of Administrative Expenditures Compared with InSite™ Administration-Related Expenditure Categories**

| GAO categories of administrative expenditures | InSite™ model administration-related expenditure categories |
|---|---|
| The salaries and fringe benefits of Title I coordinators, managers, and administrative support staff who are engaged in basic program operation and management, such as office administration and program coordination. | Program development/management<br>Salaries and related employment costs of staff who manage and coordinate the Title I program. Includes office costs and clerical costs associated with the administrator's activities. |
| The related expenditures of coordinators, managers, and administrative support staff of Title I, such as equipment, supplies, furniture, and business services required to support the administrative function, and auditing and legal services and data processing. | Business services<br>Salaries and related employment costs associated with data processing, payroll, human resources, accounting and finance, auditing, and procurement. |
| Salaries, fringe benefits, and related indirect expenditures for district or school-level administrative leadership (including school board, superintendent, superintendent's cabinet, school principal, and vice principal) involved in directing and supervising staff who are providing instruction or instruction-related services for Title I programs. | School management<br>Salaries and related employment costs of principals, assistant principals, and administrative support staff for the principal and assistant principals.<br><br>District management<br>Salaries and related employment costs of the superintendent, the superintendent's cabinet (deputies, senior administrators, researchers, and program evaluators), the school board, and the legal department. |

Source: GAO analysis.

We did not verify the reliability of the data collected from school districts that were entered into the model. However, to assess the accuracy of the data school districts provided to the consultant, we reviewed the district's most recent independent audit report related to the internal control structure. These reports did not disclose any material weaknesses in

internal controls. In addition, all school districts reported how they monitored Title I funds spent at the school level.

We did not verify the reliability of the expenditure reports. However, we took steps to ensure the reliability of the consulting firm, including interviewing a current and a former user of the firm's model and reviewing descriptions of the process the firm uses to input, categorize, and perform quality assurance on the data provided by school districts. The U.S. Department of Education worked with this finance analysis model when it was known as the Coopers and Lybrand Finance Analysis Model. In addition, all six school districts confirmed that the data from the expenditure reports included in this report were accurate.

## Indirect Cost Rates

The proportion of Title I expenditures spent on instructional, administrative, and other noninstructional activities take into account direct and indirect expenditures. Direct expenditures are those that can be specifically identified with a program, such as the salaries and benefits of program administrators. Indirect expenditures are those that cannot be specifically identified with a program, such as general administrative services.

The indirect cost rate represents the ratio of the school district's total indirect costs to some element of its direct costs. The rates are calculated by state education agencies using a methodology that is approved by Education. Indirect cost rates may vary among school districts due to differing financial management and accounting policies. It is difficult to compare indirect cost rates among school districts. Under Title I, school districts must use a restricted indirect cost rate, which is a rate that does not include state and local costs that would be incurred with or without the existence of the federal program.

Administrative expenditures were determined by adding the indirect administrative expenditures to the direct administrative expenditures. During the 2000-01 school year or fiscal year, three of the six school districts we reviewed did not charge indirect costs to Title I. For example, in Portsmouth, Rhode Island, district officials said that they used their allocation solely for salaries of teachers and teacher aides, leaving no additional dollars to charge to Title I. Three school districts, San Diego, Douglas County, and Indianapolis, did charge indirect costs to Title I. The indirect cost rates used by these school districts during the 2000-01 school year or fiscal year were 4.15 percent, 2.60 percent, and 2.01 percent applied to direct expenditures, respectively. Since accounting for indirect

expenditures varies among school districts, the consultant worked with school district officials to determine the category most appropriate for indirect expenditures.

# Appendix II: Comments from the U.S. Department of Education

UNITED STATES DEPARTMENT OF EDUCATION

THE UNDER SECRETARY

March 25, 2003

Ms. Marnie S. Shaul
Director, Education, Workforce,
and Income Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Shaul:

Thank you for transmitting to this Department for comment, the General Accounting Office (GAO) draft report "Title I: Although Definitions of Administrative Expenditures Vary, Almost All Districts Studied Spent Less Than 10 Percent on Administration." In this report, GAO provides information on Title I expenditures in six school districts, how these school districts define Title I administrative activities, and the findings of five previous studies on administrative costs, including several studies done by this Department.

The report's findings indicate that across virtually all districts studied, less than 10 percent of Title I funds were being used for administrative purposes, and, in one district, no Title I funds were used for administrative costs. According to the report, most Title I funding -- at least 84 percent in every district studied -- was spent on activities related to instruction.

We found the information in the draft report informative. When it is published, "Title I: Although Definitions of Administrative Expenditures Vary, Almost All Districts Studied Spent Less Than 10 Percent on Administration" should be useful to the Congress, this Department, and State and local grantees. We appreciate the opportunity to review and comment on the draft.

Sincerely,

Eugene W. Hickok

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# Appendix III: GAO Contacts and Staff Acknowledgments

## Contacts

Eleanor L. Johnson, (202) 512-7209

## Acknowledgments

In addition to the staff named above, Virginia Vanderlinde and Catherine Roark made major contributions in leading and staffing this assignment. Julianne Hartman-Cutts and Corinna Nicolaou also made key contributions to this report.

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